



OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Isiah Leggett
County Executive

MEMORANDUM

March 17, 2008

TO: Michael J. Knapp, President, Montgomery County Council

FROM:  Isiah Leggett, County Executive

SUBJECT: FY09 Operating Budget and FY09-14 Public Services Program

I am pleased to transmit to you, in accordance with the County Charter, my Recommended FY09 Operating Budget and FY09-14 Public Services Program.

When I took office in 2006 I pledged to put the County's financial house in order. My recommended FY09 operating budget continues the effort to do so by bringing current and expected expenditures into better alignment with our revenues.

This was a very challenging budget to develop because it involved difficult choices in the areas of service reductions, revenue increases, and identifying productivity improvements to maintain our most essential services, especially those to our most vulnerable residents. It comes at a time of considerable economic uncertainty. If we formulate our budget appropriately, we can set the County on the right path of fiscal responsibility well into the future. On the other hand, if we fail in our efforts to fully address many of these challenges now, I truly believe we would severely undermine our ability to protect the services and programs the County needs to better enhance our overall quality of life for years to come.

This budget reflects the concerns and policy issues that I heard County residents express during the many Town Hall Meetings, Budget Forums, On-Line Chats, and other community meetings we have held over the past year to better understand the hopes, expectations, and needs of the people of our County.

This budget supports my priority policy objectives:

- Children Prepared to Live and Learn
- Affordable Housing in an Inclusive Community
- Safe Streets and Secure Neighborhoods

- A Responsive and Accountable County Government
- Healthy and Sustainable Communities
- An Effective and Efficient Transportation Network
- A Strong and Vibrant Economy
- Vital Living for All of Our Residents

Montgomery County rightfully prides itself on the investments we make year in and year out to light the lamp of learning in our schools, to help folks move around the County more efficiently, to protect County families and their properties, to be responsible stewards of our environment, to ensure a vital community where men and women can earn a living or grow a business, and to help the most needy and most vulnerable in our midst.

The good news is that Montgomery County will continue to be a place where all that happens. But the bad news is that County government has been living beyond its means. Given the weakness in the housing market and in the national economy, we have a very difficult year ahead in matching our resources and our needs. But our problems do not stop with a single year. We have a structural deficit that will only grow worse – unless we change course – and do it now.

Over the past five years, County government added 1,300 jobs – a 15 percent increase – while population was increasing only 4 percent. Over the past 10 years, the number was 2,200 jobs – a 28 percent increase while population increased only 15 percent.

The past several years saw nearly double-digit increases in County spending. The County budget grew over 80 percent in the past 10 years, while inflation increased by less than 30 percent. Population growth was less than 20 percent over the same period.

The school system – which accounts for nearly half of our budget – increased jobs by 30 percent – 5,000 in total – over the past 10 years – compared to an enrollment increase of 7 percent. Overall, spending per pupil increased from \$8,093 to \$14,411 – or 78 percent – during that same period.

The County paid for all this with strong growth in income, recordation and transfer, and energy taxes – as well as dramatically increased state aid for schools. These increases were, in my view, unsustainable – even without the current difficulties with the economy, the housing market, and the State budget crisis.

The County didn't get into this financial problem overnight – and it cannot be solved in a single year. This is why I am taking a multi-year approach to resolve this unprecedented challenge.

In my first budget, the County faced a \$200 million budget shortfall. We reduced the rate of increase in spending by County government from 14.1 percent to 6.9 percent. Although we were able to fund critical services and held the line on taxes, I warned at that time that more difficult days lay ahead. This past November, the County's income, recordation, and transfer taxes fell far short of projections due to a significant downturn in the housing market. As a result, our projected shortfall increased to \$401 million.

To help us resolve this unusually high shortfall, I recommended spending reductions in this current fiscal year of two percent from County government departments and agencies, including the school system. This initiative provided \$33.2 million in savings. I also imposed a hiring freeze on all but essential personnel. These measures plus other actions helped to reduce our \$401 million challenge to \$296 million.

In addition to changes to the FY08 operating budget, I submitted to the County Council in January a Capital Improvements Program for the next 6 years that increased by only 1 percent over the previous CIP budget. The two previous CIP budgets had averaged increases of 25 percent each.

In the past we could look to the State of Maryland for assistance to help with our financial challenges. Presently, however, the state has its own problems. The increase in state aid for the County this year is likely to be only about \$11 million, a 1.7 percent increase – the smallest in over ten years. Indeed, if you take out state funding for teachers' pensions from that amount, we would actually receive less in absolute dollars from the state.

County residents are paying more in state income taxes and sales taxes that resulted from last fall's Special Session. While we experienced a slight reduction to local aid in the Special Session, the State budget situation is uncertain and additional reductions to local aid may occur. In short, the state is more likely to make our balance sheet worse, not better.

The decline in interest rates also means less investment income for Montgomery County. This source of income is projected to decline in the current year from an expected \$32.8 million to \$14.7 million – a 55 percent decrease.

Many of the limited number of options available to the County to address prior budget shortfalls are no longer available. For example, the County income tax is at the legal limit of 3.2 percent. County taxes on energy and telephone services have been increased substantially over the past half dozen years. County residents' energy costs are at an all-time high.

Because of the urgency of addressing these challenges, we sought additional reductions from our departments in developing the FY09 operating budget. Our process for identifying and deciding which expenditure reductions to make gave an early preference to protecting public safety and health and human services. All decisions on reductions were focused on preserving essential services, protecting the vulnerable, and achieving significant productivity improvements.

Accordingly, I am forwarding to the County Council a recommended operating budget that includes the lowest spending increase in 12 years.

- I am recommending to the County Council a tax-supported budget of \$3,770,119,839, up \$117,364,790 over FY08 – a 3.2 percent increase.
- For the tax-supported budget, funding for Montgomery County government increases by \$20.8 million – a 1.6 percent increase over FY08.
- Funding for the Montgomery County Public Schools increases by \$74.8 million – a 4 percent increase over FY08 and nearly 98 percent of the Board of Education request.
- Nearly two-thirds of the total increase in County spending will go to MCPS.
- Funding for Montgomery College increases by \$8.8 million, a 4.5 percent increase.
- The Maryland-National Capital Park & Planning Commission receives \$4.4 million more, a 4.5 percent increase.

- I recommend a total County budget (which includes debt service, grants and enterprise funds) for Fiscal Year 2009 of \$4,324,296,898, up \$161,750,964 over the FY08 Approved Budget – a 3.9 percent increase.

Eighty percent of the County budget goes toward compensation – wages and benefits for County employees. As a start toward addressing the structural challenges we face, I am recommending the abolishment of approximately 225 positions in County government itself – an estimated 50 of them through an early retirement incentive program.

Only after considering the very serious magnitude of the expenditure shortfall and related service reductions necessary to close the County's budget gap did I conclude that our options were so very limited that it was necessary to increase the property tax. This was a last resort – as it should be.

I have always believed that County government must keep faith with those who pay the bills – our residents. We have an obligation to be honest with them about our challenges and be diligent about reducing spending where possible without critically affecting needed County services. Only then should there be consideration of tax increases. That is the approach I have taken.

While I found it necessary to recommend an increase in property taxes, I have structured the increase in a progressive manner to limit the burden on lower and fixed-income residents.

For the median house in the County, assessed at \$343,200, the homeowner will see a \$138 hike – a 6.2 percent increase. An estimated increase at the Charter Limit Rate would have been 3.6 percent, or an increase of \$80. A homeowner whose home is assessed at \$220,000 (21 percent of County homes) would pay \$56 less in property taxes (a 4.7 percent decrease), while a home assessed at \$500,000 would pay \$383 more – an 11 percent increase. We will promote existing mechanisms for senior citizens and those on fixed incomes to assist them as needed with property tax increases.

Overall, this recommended budget reduces County spending for County-funded agencies by a total of \$155.4 million. This includes \$33.2 million in reductions in FY08 that were approved by the County Council for the County Government, MCPS, the Park and Planning Commission, and Montgomery College. It also includes \$122.2 million in reductions from the amount requested by County government departments and County agencies in FY09. MCPS reductions were \$51.1 million, the Montgomery College request was shaved by \$9.6 million, and the Park and Planning reduction totaled \$15.6 million. County department reductions totaled \$45.9 million.

This was a very challenging spending plan to develop because it required asking more from the community in terms of tax supported resources while considering and making several painful reductions in some services. However, I believe these actions are necessary not only to maintain essential services, but also to create a sustainable budget that is aligned with our capacity to maintain service levels.

In my first budget as County Executive, I slowed the increase in Montgomery County government spending from 14.1 percent in FY07 to 6.9 percent. In this year's recommended tax supported budget the increase is only 1.6 percent. This is necessary if we are to put our financial house in order.

We may disagree on some of the spending priorities and other choices I have made in my recommended budget. However, we should not rely on short-sighted solutions to bring additional resources into this budget in order to increase spending. Lowering the County's reserves, reductions to capital investments, additional

changes to promised retirement health benefit funding, or other one-time approaches will make the situation worse next year when – assuming no changes from my recommended operating budget – we are projecting a \$200 million-plus shortfall for FY 2010 with fewer options available to address this looming challenge.

The outlook on the economy remains highly uncertain – especially the prolonged slowdown in the local housing market. Final decisions by the General Assembly on the State's budget may further affect our capacity to provide local services. Resorting to quick fixes and adding continuing costs back into the budget will only exacerbate the structural budget gaps long into the future rather than addressing them now through real, long-term solutions.

Despite the current challenges we are facing, I am very optimistic about the prospects for our community. The quality and nature of services we offer our residents in the areas of education, affordable housing, public safety, and health and human services are among the very best in the nation. The underlying economy, including property values, is strong, employment is high, and we are growing in our diversity and capacity to work together to find innovative solutions to our challenges.

Children Prepared to Live and Learn

We must prepare our children to live and learn so that they will become young adults who are productive workers, healthy individuals, and successful, responsible citizens.

For Montgomery County Public Schools, I recommend a total of \$2.060 billion – nearly 98 percent of the Board of Education request. This is an increase of over \$75 million or 3.8 percent over the FY08 Approved Budget to support an anticipated student body of 137,763 down from a high of 139,387 in FY06. Per pupil spending increases to \$14,954.

I recommend an investment of \$250.8 million in Montgomery College. This is an increase of \$12.6 million or 5.3 percent over the FY08 Approved Budget, with a local contribution of \$99.1 million. This level of support requires an increase in tuition and fees of \$3 per credit hour for County residents, \$6 per credit hour for Maryland residents, and \$9 per credit hour for students from outside the State.

Our Positive Youth Development initiative is intended to provide a system for identification, prevention, early intervention and treatment that addresses the particular needs of our most vulnerable children. This budget not only sustains prior investments of nearly \$5 million but adds over \$600,000 in new funding to address the growing need for out-of-school activities.

Affordable Housing in an Inclusive Community

Despite recent fiscal and economic challenges, we must continue to work to make housing affordable in Montgomery County for all our residents by creating affordable housing and preserving our current affordable housing stock. Given the challenges facing us in this regard, I formed the Affordable Housing Task Force to help identify and develop creative solutions to the crisis of affordable housing in our community. While we are waiting for the group's final recommendations, it is time to implement innovative strategies to expand the stock of affordable housing in Montgomery County.

To do this I recommend an investment of over \$54 million in the Montgomery Housing Initiative fund (MHI) for acquisition and rehabilitation of the County's affordable housing stock. My recommended budget for MHI will leverage the existing resources of that fund with the transfer from the General Fund to create a property acquisition revolving fund which will significantly increase our capacity to acquire affordable

housing. Thanks to a new approach to leveraging County dollars, this provides a significant increase to the MHI budget without impacting other County operating budget funding priorities.

I will continue to research and develop other innovative efforts for affordable housing, including expanding our partnership with non-profit providers and national organizations to bring us closer to the goal of a community where our residents can afford to live and work.

Safe Streets and Secure Neighborhoods

This budget sustains the most important investments we have made in our public safety departments including patrol and investigative staffing in the Police Department and field staffing in our Fire and Rescue Services. The past several years have seen significant increases in public safety staffing. Due to current fiscal challenges, we have been forced to make reductions in certain public safety programs. However, those reductions were carefully selected to minimize impacts on response time or first response services.

Fire, Rescue, Emergency Medical Services and Emergency Preparedness are paramount to providing residents and visitors safe and secure streets and neighborhoods. Toward this end I recommend adding 36 new firefighter positions to staff the West Germantown Fire Station when it opens during the next fiscal year. We are also including funds to sustain the second phase of four-person staffing on fire apparatus and the uniformed staff added last year to enhance our capacity to make inspections for compliance with the Fire Safety Code.

In this budget I am recommending that we institute an Emergency Medical Services (EMS) transport fee to provide additional resources to sustain and grow our Fire and Rescue Services in the coming years. The projected level of tax-supported resources for the Fire Tax District Fund simply cannot meet the demands for apparatus management; volunteer enhancement, recruitment and retention; performance based initiatives for the volunteer fire rescue departments; additional staffing for new stations opening in West Germantown, East Germantown, Travilah, Clarksburg, and other locations around the County; additional staffing to implement four-person staffing of apparatus; and competitive compensation and benefits for our firefighters and emergency medical technicians.

This EMS Fee will be billed directly to an individual's health insurance. No County resident who is unable to pay will have any out-of-pocket expense for transport to the hospital. All of our surrounding jurisdictions have implemented similar programs with no impact on the willingness of individuals to call for emergency services. The program also will be structured to have no impact on the development and growth capabilities of local volunteer fire and rescue departments.

To address the high incidence of pedestrian injuries and fatalities in our County, I formed the Pedestrian Safety Initiative. This initiative was staffed by an interagency work group from the Maryland-National Park and Planning Commission, the Maryland State Highway Administration, the Montgomery County Department of Public Works and Transportation, Police Department, the CountyStat Office, the County Council, and others, and developed seven strategies designed to enhance pedestrian safety throughout Montgomery County. Based on the recommendations of the work group, I am recommending an additional \$800,000 to conduct safety audits in areas with a high incidence of pedestrian collisions, make physical improvements to those areas, and enhance outreach and education. This additional investment will complement our existing pedestrian safety program, which includes sidewalk repair and construction, signal optimization, crosswalk installation, and outreach and education.

Funding is provided through the Capital Improvements Program to complete the implementation of the States Attorney Case Management System and the Department of Correction and Rehabilitation's CRIMS system, which are key components of the Integrated Justice Information System (IJIS) project. When completed, the IJIS project will provide the County's criminal justice departments with significantly enhanced capabilities to manage records, coordinate activities, share information, and make their daily operational tasks more efficient and effective.

A Responsive and Accountable County Government

Since taking office last year, I have instituted several measures to make Montgomery County government even better and more efficient in how we operate and provide services to the community.

To improve responsiveness and efficiency, I have reorganized several County Government departments including creating separate Departments of Transportation and General Services from the former Department of Public Works and Transportation. The Office of Procurement and the Local Small Business Reserve program in the Department of Economic Development have been integrated into the Department of General Services as well. Additionally, the Office of Internal Audit and Government Accountability and Compliance have been transferred to the Offices of the County Executive. The County's security services, which were previously in the Department of Homeland Security, have been shifted to the County's Police Department to improve coordination and training.

To improve performance, accountability and to reinforce a focus on results, I established the CountyStat program within my office. The CountyStat program will provide a forum for ongoing monitoring and measurement of the effectiveness and efficiency of County Government services. Where opportunities for improvement are noted, the CountyStat Office, with the affected departments, will develop steps for corrective action to ensure a culture of continuous improvement.

Progress is also being made in the implementation of a centralized 311 Call Center and a Constituent Relationship Management system (CRM) to enhance community services. Residents will ultimately be able to call one number to access County government services, and we will improve our ability to assure that every caller gets a timely response.

We are also continuing to take steps to reevaluate our business processes and modernize our Core Business Systems to improve the efficiency, effectiveness, and responsiveness of the County Government. The Technology Modernization project will provide resources to develop an Enterprise Resource Planning system project (ERP) that will provide a significant upgrade to the County's financial, procurement, human resource, and budgeting systems and will streamline existing business processes. The Technology Modernization capital project will also provide resources to continue to replace the County's manual employee timekeeping system with an automated, web-based system that will provide greater efficiency, functionality, and reporting features.

Healthy and Sustainable Communities

We must preserve and sustain the environment in our community. In this budget we will improve local water quality by assuming responsibility for inspecting over 100 additional stormwater management facilities and for maintaining nearly 350 more above ground and below grade stormwater management facilities through the County's Water Quality Protection Fund.

I also recommend installation of a new system to reduce nitrogen oxide emissions by half at the County's Resource Recovery Facility, which will substantially contribute to air quality in a cost-effective manner.

To implement the County's recently enacted Green Buildings Law, we are adding staff to the Department of Permitting Services to review building plans and inspect construction sites to ensure compliance with these more environmentally-friendly building standards.

While it was necessary, due to our current fiscal challenges, to make targeted reductions to certain Health and Human Services programs, we were able to sustain our most important commitments and make improvements to other vital services. Staff were added to support the opening of the School Based Health Center at Summit Hall Elementary School and to enforce the recently enacted health regulation restricting the use of ingredients containing trans-fats in most County restaurants. In the Montgomery Cares Access to Healthcare for the Uninsured program, we are maintaining the number of clients served annually at more than 19,000 users.

We have also replaced with local funds the loss of certain critical grants including grant funding for the Child Assessment Center, the Juvenile Drug Court, and the Journeys Intensive Outpatient Program. We have added funding to maintain certain contractually provided services, including those supporting senior nutrition, the Maternity Partnership, and providing housing for mentally ill women.

I am recommending establishment of a Family Justice Center that would offer a more responsive, holistic approach to providing services to the victims of domestic violence. The Family Justice Center concept, which has been used in other jurisdictions around the nation, was developed locally by the Domestic Violence Coordinating Commission with the support of the County Sheriff and members of the County Council. Located near the courts and providing a range of services for families that are victims of domestic violence, the Family Justice Center will provide an integrated, inter-agency approach to providing support and services.

An Effective and Efficient Transportation Network

To make the County's transportation services and capital development more responsive and aligned with my priorities, I am proposing that we separate the Transportation functions from the Department of Public Works and Transportation into its own department. This will allow a greater focus on transportation policies, issues, and services.

With additional resources from the State we are expanding the number of Ride On buses that will be replaced in FY09 to provide a safer, more fuel efficient, and more environmentally-friendly bus fleet. Despite projected route reductions, Ride On is expected to grow to serve over 30.6 million passengers in FY09, a remarkable achievement that will help ease congestion and contribute to improved air quality in the region.

A Strong and Vibrant Economy

A growing, dynamic local economy is essential to maintaining a strong community. I recommend sustaining the commitments we have made to the County's business incubators including establishment of the Germantown Business Incubator. In addition, I am recommending current revenue funding in the capital budget to continue planning for the creation of a new business incubator in the Eastern County at the Life Sciences and Technology Center.

In order to support our small, local businesses we have created the Division of Business Empowerment in the Department of Economic Development and have transferred the administration of the Local Small Business Reserve to the Department of General Services' Procurement Division to provide expanded support for local businesses working with the County Government.

I am also including current revenue funding in the capital budget to continue planning for the creation of a multi-purpose arena. While the location, scope, and timing of this project are still to be determined, this is an exciting opportunity that will benefit the local economy and all of our residents.

Ensuring Vital Living for All of Our Residents

I am recommending community grants totaling \$4.1 million for nonprofit organizations that assist County agencies in addressing the human service needs of people in our community. We are recommending consolidating all grants for ESOL instructional services with the Montgomery Coalition for Adult English Literacy (MCAEL) to improve the efficiency and coordination of these services within the County. The associated costs for this are shown in a newly established Non-Departmental Account for the contract with MCAEL.

With resources provided by the recently enacted recordation tax premium, I am recommending over \$2.6 million in expanded Rental Assistance programs to be provided by the County Departments of Health and Human Services, Housing and Community Affairs, and the Housing Opportunities Commission.

I recommend \$119.3 million for the Maryland-National Capital Park and Planning Commission budget, which represents a 4.0 percent increase over the FY08 Approved Budget and is a 4.5 percent increase for the Commission's tax-supported budgets.

Investing in Our Workforce

As required by law, I am recommending funding the contracts with the County Government's employee representative organizations. This budget reflects the results of recent contract negotiations with the Municipal and County Government Employees Organization (MCGEO) and the Fraternal Order of Police over group insurance and retirement benefit issues as well as with the Montgomery County Volunteer Fire and Rescue Association (MCVFRA) and the International Association of Career Firefighters on all contractual issues.

In addition, I am recommending continued funding to support the provision of promised health insurance benefits to County retirees. However, due to fiscal constraints we are recommending that we revise our previous plan for phasing in the funding for this benefit from five years to eight years. This will free up tax-supported resources that can be invested in preserving existing services.

In the past too much focus was put on the accounting requirements related to this benefit. The truth is that if funding does not exist for this benefit, the benefit itself is not secured.

To approve health benefits for future retirees without funding those benefits is not responsible – it breaks faith with retirees who will need to know the money is there when it is needed. We have long accepted the concept of pre-funding of pension benefits because it is a responsible and cost effective approach to fulfilling our promises to retirees. We need to embrace the need to realistically fund this commitment as well.

To ensure that the County sets aside the funds needed for promised health benefits, I am recommending that the appropriation for each agency, including Montgomery County Government, condition the spending authority of that Agency on its contributing the scheduled amount of funds for Retiree Health Benefits into a trust created to manage the funding for and payment of these benefits.

Because we are projecting a long-term imbalance between expenditures and revenues we need to focus on solutions that are continuing in nature. For this reason I am recommending creation of an early retirement incentive program. While all of the details surrounding this plan need to be further defined, we are estimating savings of approximately \$5 million in FY09 through this program.

This budget proposes to abolish approximately 225 positions in Montgomery County Government. These reductions include an estimated 50 positions that would be permanently abolished as part of the early retirement incentive program. While it was a difficult decision, the elimination of these positions will create substantial long term savings that will contribute to realigning expenditures with revenue growth.

Funding the Budget

I recommend total growth in our tax-supported budget of 3.2 percent – or \$117.4 million – over the FY08 Approved Budget. My total FY09 budget – including debt service, grants and enterprise funds that generate their own revenue – is recommended at \$4,324.3 million, up \$161.8 million over the FY08 Approved Budget – or 3.9 percent.

In order to preserve essential services, I am recommending an increase in property taxes of \$128 million. For the median house in the County, assessed at \$343,200, the homeowner will see a \$138 hike – a 6.2 percent increase. An estimated increase at the Charter Limit Rate would have been 3.6 percent, or an increase of \$80. A homeowner whose home is assessed at \$220,000 (21 percent of County homes) would pay \$56 less in property taxes (a 4.7 percent decrease), while a home assessed at \$500,000 would pay \$383 more – an 11 percent increase. We will promote existing mechanisms for senior citizens and those on fixed incomes to assist them as needed with property tax increases.

Water and sewer rates increase by 8.0 percent in FY09 in accordance with the budget recently approved by the Washington Suburban Sanitary Commission (WSSC). In addition, certain other fees will need to be increased and new fees will be implemented to cover rising program costs. Details on fee increases are provided in the How to Fund the Budget section of my Recommended FY09 Operating Budget.

Final Thoughts

I want to thank those who contributed to the development of this spending plan including the Board of Education and Superintendent at Montgomery County Public Schools; the Trustees and President of Montgomery College; the Chair of the Maryland-National Capital Park and Planning Commission and the Planning Board; the Commissioners and General Manager of the Washington Suburban Sanitary Commission; individual residents, as well as members of boards, commissions, and committees; community-based organizations; and directors, employees, and employee representatives of departments in all agencies.

Highlights of my recommendations are set forth on the following pages and details can be found in the departmental sections. The full budget can be viewed on the County's website at www.montgomerycountymd.gov. Details of the budget requests for Montgomery County Public Schools, the College, Maryland-National Capital Park and Planning Commission, and Washington Suburban Sanitary Commission can be seen in the separate budget documents produced by those agencies.

I look forward to working with the Council over the next two months on spending priorities and policy issues that arise and have asked Executive Branch staff to assist you in your deliberations.